

## Message Text

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PAGE 01 SANTIA 04910 152217Z  
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01  
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 PA-02 PRS-01 /098 W  
-----160230Z 083343 /70

R 151416Z JUN 77  
FM AMEMBASSY SANTIAGO  
TO SECSTATE WASHDC 5231  
INFO AMEMBASSY BUENOS AIRES  
AMEMBASSY LIMA  
AMEMBASSY BRASILIA

UNCLAS SANTIAGO 04910

E.O.11652:N/A  
TAGS: EFIN, EGEN, CI  
SUBJ: NEW STEP TOWARDS A FREE FOREIGN EXCHANGE MARKET

REF: MEMCON OF MAY 2, 1977 - DISCUSSION AT CENTRAL BANK

1. SUMMARY: RUMORS OF A FREE EXCHANGE RATE SURFACED AGAIN  
RECENTLY AS THE GOC ANNOUNCED INCREASED FLEXIBILITY IN  
SALES TO THE PUBLIC OF FOREIGN EXCHANGE BY COMMERCIAL BANKS.  
A LONG-STANDING GOAL OF FINANCE MINISTER SERGIO DE CASTRO,  
OF A FREE EXCHANGE RATE, NEVERTHELESS CONSTITUTES A  
STEP WHICH THE CENTRAL BANK SO FAR REMAINS UNWILLING TO TAKE.  
END SUMMARY.

2. SUBJECT ONLY TO THE RESTRICTION THAT IT WILL BE REMITTED  
ABROAD, FOREIGN EXCHANGE IN AMOUNTS UP TO 500 DOLLARS MAY NOW  
BE PURCHASED FROM COMMERCIAL BANKS WITHOUT PRIOR AUTHORIZATION  
FROM THE CENTRAL BANK. HOW WIDELY THIS FACILITY IS USED, WILL  
DEPEND IN PART ON HOW STRINGENT THE COMMERCIAL BANKS ARE  
REGARDING THE TYPE OF EVIDENCE OF INTENT TO REMIT ABROAD TO BE  
REQUIRED OF THE PUBLIC. FOLLOWING ARE SOME OF THE PRINCIPAL  
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OBJECTIVES OF THIS MEASURE:

3. SOAKING UP PESOS - FACILITATING THE SALE OF FOREIGN  
EXCHANGE MAY WELL ACCELERATE THE RECOVERY BY THE CENTRAL  
BANK OF LOCAL CURRENCY. THIS MANEUVER SHOULD FURTHER HELP  
TO DIMINISH THE INFLATION RATE.

4. RELATIONSHIP WITH IMPORTS. IT WILL BE RECALLED THAT MORE THAN ONE YEAR AGO, THE CENTRAL BANK AUTHORIZED THE SALE OF FOREIGN EXCHANGE BY COMMERCIAL BANKS UP TO FIFTEEN HUNDRED DOLLARS, AGAINST REASONABLE EVIDENCE THAT THE DOLLARS WERE TO BE USED FOR PURPOSES OF IMPORTATION. THIS NEW MEASURE WIDENS THE USE OF SUCH FUNDS TO INCLUDE, FOR EXAMPLE, PAYMENT FOR TRAVEL, SERVICES, EDUCATION OR OTHER PURPOSES IN FOREIGN COUNTRIES.

5. LOWERING OF INTEREST RATES - DEPENDING ON THE ROLE PLAYED BY SPECULATORS, THIS MEASURE MAY ASSIST IN THE LOWERING OF INTEREST RATES. SPECULATORS MAY INTERPRET THIS ANNOUNCEMENT AS A FURTHER STEP TOWARDS FREEING THE EXCHANGE MARKET. IF THEY DO, AND ASSUMING THAT THEY ANTICIPATE A REDUCTION IN THE PRICE OF FOREIGN EXCHANGE THESE SPECULATORS WILL DISPOSE OF THE DOLLARS THEY HOLD. MANY OF THE PESOS OBTAINED THROUGH THE SALE OF SUCH FOREIGN CURRENCY WOULD PROBABLY BE CHanneLED INTO THE SECURITIES MARKET. SINCE THE PRICE OF BONDS VARIES INVERSELY WITH THEIR RATE OF INTEREST, FORCING UP THE PRICE OF BONDS SHOULD, IN THEORY, HAVE A DEPRESSING EFFECT ON THE GENERAL LEVEL OF INTEREST RATES.

6. CONFIRMATION OF CHILEAN RESERVE POSITION - BY MAKING THE PURCHASE OF FOREIGN EXCHANGE MARGINALLY EASIER, THE CENTRAL BANK IS GIVING NOTICE THAT IT HAS RESERVES TO SPARE. ALONG WITH OTHER FACTORS, THIS SHOULD HELP TO SUSTAIN CHILE'S ALREADY GOOD CREDIT RATING WITH INTERNATIONAL BANKS AND BOLSTER FOREIGN BUSINESS CONFIDENCE GENERALLY.

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7. TOWARDS A FREE EXCHANGE RATE - SOME SOURCES ARGUE THAT THE ECONOMIC CONDITIONS NECESSARY TO A FREE EXCHANGE RATE ARE NOT YET APPARENT. OTHERS SAY THAT IT IS THE NEXT STEP TO BE TAKEN. ON EITHER THEORY, IT IS INCONTROVERTIBLE THAT THE FINAL GOAL WITH RESPECT TO EXCHANGE POLICY IS THAT OF A FREE MARKET, AS EXPRESSED BY MINISTER OF FINANCE SERGIO DE CASTRO DURING A TV INTERVIEW ONLY A MONTH AGO, AND THAT THIS IS AT LEAST ONE STEP IN THAT DIRECTION.

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FINANCIAL STABILITY, FOREIGN EXCHANGE  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009